

THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF
DAWN M. HIPPI

RECEIVED
2005 APR 13 PM 4:32
SOUTH CAROLINA
COMMISSION



DOCKET NO. 2004-353-W/S
LAKE WYLIE COMMUNITY UTILITIES, INC.
APPLICATION FOR RATE INCREASE AND
CHARGES FOR WATER AND SEWER SERVICES

RETURN DATE: OK 10/10/04
SERVICE: OK 10/10/04

TESTIMONY OF DAWN M. HIPPI**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2004-353-WS****IN RE: LAKE WYLIE COMMUNITY UTILITIES, INC.**

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Dawn M. Hipp. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the state of South Carolina as a Program Specialist in the Water/Wastewater Department for the Office of Regulatory Staff ("ORS").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I am a 1992 graduate of Moorhead State University where I earned a B.S. in Political Science.

I have over eight years of experience in hazardous waste regulation. From 1996 to 1999, I worked for Laidlaw Environment Services in Saukville, Wisconsin, as an accounts receivable supervisor and then as a facility accounting supervisor for Laidlaw's Government Services Division. In this role, I facilitated electronic

1 commerce including EDI transfer of order and EFT payments with customers. I
2 also developed, implemented, and enhanced government billing and waste
3 tracking systems. From 1999-2003, I worked for Safety-Kleen Corporation and
4 Clean Harbors Environmental Services, Inc. in Columbia, SC as an operations
5 manager in the Government Services Division. In this role, I managed the
6 financial, operations and all regulatory aspects of field offices nationwide serving
7 Department of Defense hazardous waste removal contracts. I was accountable for
8 the viability of 14 government contracts yielding \$12 million in revenue annually.
9 In September 2004, I joined ORS as the Program Specialist for Water and
10 Wastewater Department. I am a member of the American Water Works
11 Association (AWWA) and the South Carolina Section of the American Water
12 Works Association (SC-AWWA).

13 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
14 **PROCEEDING?**

15 A. The purpose of my testimony is to set forth the ORS staff findings and
16 recommendations on the amount of additional operating revenues that would
17 result from the implementation of the schedules of rates and charges proposed by
18 Lake Wylie Community Utilities, Inc. ("LWCU"). Specifically, I will focus on
19 LWCU's depreciation, financial assurance requirements, and proposed revenue
20 requirement.

21 **Q. ARE THE FINDINGS OF YOUR REVIEW CONTAINED IN THIS**
22 **TESTIMONY AND ACCOMPANYING EXHIBITS?**

1 A. Yes, my testimony and the attached exhibits detail my findings and
2 recommendations.

3 **Q. PLEASE EXPLAIN HOW YOU COMPILED INFORMATION FOR YOUR**
4 **TESTIMONY AND EXHIBITS.**

5 A. I used ORS audit results and information provided by LWCU in its Application
6 and Data Request responses. Using this information, I determined the amount of
7 additional operating revenues (Exhibit DMH-6) which will be produced by
8 LWCU's proposed rates. I also reviewed LWCU's financial statements and
9 performance bond documents submitted to the Public Service Commission.

10 **Q. PLEASE PROVIDE AN OVERVIEW OF THE LOCATION AND**
11 **SERVICE PROVIDED BY LWCU.**

12 A. LWCU is a public utility providing water service and wastewater
13 collection/treatment services. Located close to the North Carolina state line,
14 LWCU's York county water operations include two wells (total capacity >
15 400,000 gpd), a 20,000 gallon pressurized storage tank and distribution lines.
16 LWCU received a "Satisfactory" rating from Department of Health and
17 Environmental Control ("DHEC") for the permitted drinking water system in
18 September 2004. In addition, LWCU operates a collection and biological
19 wastewater treatment facility ("WWTF"). The "package plant" discharges
20 effluent into Mill Creek and is in compliance with all DHEC regulations
21 governing its National Pollutant Discharge Elimination System ("NPDES")
22 Permit, SC0037605.

1 LWCU's residential customers are located in the Lake Wylie Mobile Home Park
2 and an adjacent Southwoods subdivision. The sole commercial customer is the
3 Lake Wylie Mobile Home Community ("LWMHC") office.

4 **Q. PLEASE EXPLAIN EXHIBIT DMH-1 OF YOUR REPORT.**

5 A. Exhibit DMH-1, pages 1 through 5, provides a summary of the services provided
6 by LWCU based on the Business Office Compliance Review and Facility Site
7 inspection completed by ORS. The Business Office Compliance Review consists
8 of a review of LWCU's office records to determine compliance with Commission
9 rules and regulations. The Facility Site inspection is a visual review of the wells,
10 water distribution system, wastewater collection system and WWTF
11 plant/equipment used to provide service to LWCU's customers. This review
12 demonstrated that LWCU currently provides adequate water and wastewater
13 treatment services to its customers and is operating its two wells and one
14 wastewater treatment facility in compliance with all DHEC rules and regulations.
15 No construction upgrades to the water or wastewater operations are currently
16 planned.

17 ORS staff, Mr. Willie Morgan and Ms. Dawn Hipp, met with Mr. John C. Malpeli
18 on March 3, 2005, to review all Business Compliance and Facility Site audit
19 results documented by ORS. Both parties had opportunity to provide feedback
20 and suggestions to assist LWCU in their efforts toward compliance with all PSC
21 Rules and Regulations. LWCU's willingness to improve compliance and
22 maintain a high standard of customer service was noted during the Business
23 Compliance audit. Mr. Malpeli's efforts to complete the Authorized Utility

1 Representative Form and provide an updated service/system map were
2 appreciated by ORS.

3 The Business Office Compliance Review revealed the following deficiencies:

- 4 1. No complaint records are available as required pursuant to 26 S.C. Code Regs.
5 103-538 and 103-738. LWCU's customers are asked to complete a Complaint
6 form documenting the specific details of their complaint. However, LWCU
7 does not maintain complaint records providing detailed information to afford
8 analysis of the utility's procedures, actions and resolutions to specific
9 customer complaints as required by 26 S.C. Code Regs. 103-516, 103-538,
10 103-716 and 103-738. During the audit, Mr. Malpeli informed ORS that
11 LWCU rarely receives any complaints. This assertion was substantiated by
12 ORS's Consumer Services Division which has no service complaints for
13 LWCU for the time period 2003-2005. ORS reviewed the regulation
14 requirements and discussed with Mr. Malpeli methods LWCU could use to
15 achieve compliance for complaint record maintenance.
- 16 2. The bill form lacks a telephone number for LWCU as required by 26 S.C.
17 Code Regs. 103-532.2(k) and R.103-732.2(k). ORS suggested the bill form
18 also include business office hours.
- 19 3. The bond amount is insufficient pursuant to 26 S.C. Code Regs. 103-512.3.1
20 and 103-712.3.1.

21 **Q. PLEASE EXPLAIN EXHIBIT DMH-2 OF YOUR REPORT.**

22 A. Exhibit DMH-2 provides an overview of LWCU's bonding structure. The purpose
23 of a wastewater utility's performance bond is to provide sufficient financial

1 assurance to both the customer and the Commission in the event that the utility
2 fails to provide safe and adequate service. The performance bond amount should
3 be of a level to support all expenses of that utility for a period of time. Pursuant
4 to 26 S.C. Code Regs. 103-512.3.1 and 103-712.3.1, "the amount of bond shall be
5 based on, but not limited to, the total amount of the following categories of
6 expenses for twelve months: Operation and Maintenance Expenses, General and
7 Administrative Expenses, Taxes Other Than Income Taxes, Income Taxes, and
8 Debt Service including Interest Expenses." The bond amount is also set forth in
9 S.C. Code Ann. Section 58-5-720 (Supp. 2004). The Commission's statutes and
10 regulations state bond amounts must range from an amount not less than \$100,000
11 and not more than \$350,000. In lieu of a commercial bond or the posting of a
12 certificate of deposit, an individual surety may stand the bond upon meeting the
13 requirements that the individual's net worth, including the financial assurances, is
14 twice the face amount of the bond, pursuant to 26 S.C. Code Regs. 103-512-3.2
15 and 103-712.3.

16 LWCU has a current performance bond for water in the form of an individual
17 surety on file with the PSC in the amount of \$40,000 (Exhibit DMH-3) to provide
18 \$20,000 of financial assurance for both the water and wastewater utility
19 operations. Mr. Malpeli filed a personal Statement of Financial Condition as
20 surety dated March 31, 2004 indicating assets and net worth totaling \$658,165.00.

21 Mr. Malpeli's Statement of Financial Condition did not indicate any liabilities.

22 Upon reviewing the expenses from the test year and using the criteria set forth in
23 26 S.C. Code Regs. 103-512.3.1 and 103-712.3.1, I determined that the face

1 amount of LWCU's bond based on the expenses from the test year should be
2 \$100,000.00 (Exhibit DMH-2) for water operations and \$100,000.00 for
3 wastewater operations. LWCU's adjusted bonding criteria expenses for the test
4 year were \$67,948.00 for water operations and \$66,741.00 for sewer operations.
5 Combined bonding criteria expenses totaled \$134,689.00. ORS finds Mr.
6 Malpeli's current Statement of Financial Condition listing net worth of
7 \$658,165.00 is sufficient as it exceeds the amount required by 26 S.C. Code Regs.
8 103-512-3.2 and 103-712.3.2.

9 **Q. PLEASE EXPLAIN EXHIBIT DMH-4 OF YOUR REPORT.**

10 A. Exhibit DMH-4, consisting of one page is the depreciation schedule for the assets
11 obtained or owned by LWCU during the January 1, 2003 through December 31,
12 2003 test year.

13 **Q. WHAT SERVICE LIFE DO YOU ATTRIBUTE TO THESE ASSETS?**

14 A. The service life should be based on the useful life of a piece of equipment. The
15 water systems and wastewater systems were constructed in 1974, according to
16 LWCU records. Mr. Malpeli, under a sole proprietorship, acquired the business
17 and associated systems in 1984. Further, Mr. Malpeli did not claim depreciation
18 expense, for tax purposes, on the systems until 1989. The water and wastewater
19 systems were expanded in 1992 and 1996. LWCU has proposed that the
20 depreciation schedule for its existing water plant have a 20-year service life
21 period. LWCU proposed that the gravity sewer lines have a 25-year service life
22 period and that the WWTF have a 20-year service life period. ORS recommends
23 that the water plant mains and wells, acquired in 1984, be capitalized and

1 depreciated over a 27-year service life period. In addition, the water mains
2 installed in 1992 and 1996 should be capitalized and depreciated over a 38-year
3 service life. We recommend that the gravity sewer lines be capitalized and
4 depreciated over a 40-year average service life period. ORS recommends that the
5 WWTF cost be capitalized and depreciated over a 27-year average service life
6 period. The ORS recommendations are based on the conclusions outlined in the
7 Florida Public Service Commission Water and Wastewater System Regulatory
8 Law as recommended by the NARUC staff. ORS's approach and conclusions
9 made concerning depreciation are consistent with the Public Utility Depreciation
10 Practices manual as published by NARUC in 1996 as compiled by the Staff
11 Subcommittee on Depreciation of the Finance and Technology Committee.
12 ORS's recommended service life periods are further supported by the existing
13 service life of the water and wastewater systems.

14 All items listed by LWCU on its depreciation schedule have been located by ORS
15 and verified as used and useful in water and wastewater operations.

16 **Q. PLEASE EXPLAIN EXHIBIT DMH-5 OF YOUR REPORT.**

17 A. Exhibit DMH-5 summarizes LWCU's service revenues for the test year. I used a
18 bill frequency analysis to review LWCU's billing data. The bill frequency
19 analysis utilizes the total number of invoices issued during the test year multiplied
20 by the average billing amount per monthly customer invoice. This provides a
21 comparison between what should have been billed and what was actually
22 recorded as revenue. LWCU provides service to LWMHC and Southwoods
23 subdivision. LWMHC rents lots on a monthly basis with all improvements,

1 including water and sewer, to each mobile home owner. LWCU and LWMHC
2 are both owned by Mr. Malpeli and are considered affiliated companies for
3 regulatory purposes. LWCU records revenue for the test year, at PSC-approved
4 rates, for LWMHC customers. ORS has included, for bill frequency analysis
5 purposes, the number of rental mobile homes as if they were being invoiced
6 directly by LWCU. According to the bill frequency analysis, LWCU is collecting
7 all revenues invoiced to its customers. LWCU's uncollectible percentage is
8 0.00%.

9 In addition to my previous recommendations, I would recommend that LWCU
10 maintain its books and records for water and sewer operations in accordance with
11 the NARUC Uniform System of Accounts for Class B Water and Sewer Utilities as
12 required in 26 S.C. Code Regs. 103-517 and 103-717.

13 **Q. PLEASE EXPLAIN EXHIBIT DMH-6 OF YOUR REPORT**

14 A. Exhibit DMH-6 provides two types of comparisons of LWCU's service revenue
15 and proposed rates. ORS used total number of invoices issued during the test year
16 and LWCU's current and proposed rates as the basis for some calculations. In
17 summary, ORS calculated LWCU's test year service revenue for water
18 operations, as adjusted, of \$34,120.00. ORS calculated LWCU's test year service
19 revenue for wastewater operations, as adjusted, of \$34,120.00. ORS calculated
20 test year revenues for combined operations, as adjusted, of \$68,420.00. For
21 comparison, ORS calculated LWCU's proposed water service revenues, as
22 adjusted, of \$113,400.00. ORS calculated LWCU's proposed wastewater service
23 revenues, as adjusted, of \$113,400.00. At LWCU's proposed rates, combined

1 operations revenue, as adjusted would total \$226,800.00. Finally, ORS calculated
2 LWCU's water and wastewater service revenue based on suggested alternate
3 operating margins of 10.00% and 15.00%. Mr. Roy Barnette discusses specific
4 service revenue and expense adjustments to normalize the test year in his
5 testimony.

6 **Q. PLEASE EXPLAIN WHY YOU INCLUDED ALTERNATE OPERATING**
7 **MARGINS IN EXHIBIT DMH-6.**

8 A. Under the rate structure proposed by LWCU, the resulting operating margin
9 would be 27.99%. Based on business experience and the fact that LWCU has no
10 planned facility upgrade or expansion, ORS's suggested operating margin range
11 of 10-15% is a more prudent balance between the consumer's need for affordable,
12 quality services and LWCU's financial health.

13 **Q. PLEASE EXPLAIN EXHIBIT DMH-7 OF YOUR REPORT**

14 A. Exhibit DMH-7 is a summary of the current PSC approved rates for LWCU,
15 LWCU's proposed rates and ORS's suggested alternate rates based on operating
16 margin. As required by S.C. Code Ann. Section 58-4-10 (Supp. 2004), ORS is to
17 balance the "concerns of the using and consuming public" and preserve "the
18 financial integrity of the state's public utilities." In keeping with our mission,
19 ORS asserts that LWCU requires increased revenues to meet day-to-day
20 operations and provide safe and adequate water and sewer service to its
21 customers. LWCU has not applied to the PSC for a rate increase since 1982 and
22 under the current rate structure, is operating at a significant loss. However, ORS
23 recognizes that the impact of LWCU's proposed rates on the consuming public is

1 significant. At LWCU's proposed rates, a customer's monthly bill would increase
2 by \$50.00/month. ORS's suggested alternate rates as demonstrated in Exhibit
3 DMH-7 would balance the consumer's need for quality services at affordable
4 rates while allowing LWCU continued viability.

5 **Q. PLEASE EXPLAIN EXHIBIT DMH-8 OF YOUR REPORT.**

6 A. Exhibit DMH-8 provides a summary of alternate rates produced by a selected
7 range of operating margins. The Audit Department calculated the revenue
8 requirement for the alternate operating margins. The Water/Wastewater
9 Department calculated the alternate rates that would produce the revenue
10 requirement. Using ORS's proposed adjustments, LWCU currently has a
11 -109.64% Operating Margin. The range of Operating Margins for Exhibit DMH-8
12 is 5%, 10%, 15%, 20%, 25%, and 27.99%. The estimated resulting operating
13 margin upon implementation of LWCU's proposed rates is 27.99%.

14 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS?**

15 A. ORS would like to commend LWCU for their commitment to providing their
16 customers with reliable and quality services. Although LWCU has not made a
17 profit from providing water and wastewater services, Mr. Malpeli has continued
18 to maintain a high standard in all facets of his operations as proven by his DHEC
19 compliance records.

20 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

21 A. Yes it does.

DIRECT EXHIBITS

OF

DAWN M. HIPPIE

**DOCKET NO. 2004-353-WS
LAKE WYLIE COMMUNITY UTILITIES, INC.
APPLICATION FOR RATE INCREASE AND
CHARGES FOR WATER AND SEWER
SERVICES**

REPORT OF THE WATER/WASTEWATER DEPARTMENT

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2004-353-WS

LAKE WYLIE COMMUNITY UTILITIES, INC.

DAWN M. HIPPIE TESTIMONY

EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>EXHIBIT TYPE</u>	<u>PREPARED BY</u>
DMH-1	Business Review and Site Review	ORS
DMH-2	Performance Bond Requirement	ORS
DMH-3	LWCU Performance Bond	Lake Wylie Community Utilities, Inc.
DMH-4	Depreciation: Service Life	ORS
DMH-5	Service Revenue Analysis	ORS
DMH-6	Service Revenue Impact	ORS
DMH-7	Impact of Proposed Rates	ORS
DMH-8	Alternate Operating Margin	ORS

REVIEW OF WATER AND WASTEWATER SERVICES
LAKE WYLIE COMMUNITY UTILITIES, INC.
DOCKET: 2004-353-WS

On February 25, 2005, and March 3, 2005, personnel from the Office of Regulatory Staff (ORS) of South Carolina performed a Business Compliance audit and Facility Site audit of Lake Wylie Community Utilities, Inc. (LWCU) books and operations in preparation for this rate case. LWCU currently operates two wells and one wastewater treatment (WWTF) facility located in York County providing potable water and wastewater treatment services to 93 residential homeowners, 169 rental mobile homes and the Lake Wylie Mobile Home Park office.

The ORS Consumer Services Department received no consumer complaints regarding LWCU during the test year. Since the Notice of Filing was mailed to LWCU's customers, the Public Service Commission has received one Petition to Intervene and eleven letters of protest.

LWCU provides adequate water provision/distribution and wastewater collection/treatment services and is operating its two wells and one wastewater treatment facility in full compliance with all DHEC rules and regulations.

The following 2 pages provide a summary of the ORS Business Compliance Audit results.



ORS BUSINESS OFFICE COMPLIANCE REVIEW

Utility: Lake Wylie Community Utilities, Inc.
 Inspector: Dawn Hipp/Willie Morgan
 Office: 1295 State Line Road, Clover, SC 29710
 Utility Type: Wastewater/Water utility
 Date: 03/03/05
 Company Representative: J.C. Malpeli

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with R.103-510 and R. 103-710.	X		
2	Complaint records maintained in accordance with R.103-516 and R. 103-716.		X	No specific customer complaint logbook maintained. Customer service complaints are recorded on a Complaint form. Service complaint is then given to service technician for resolution.
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-530 and R.103-730.	X		Updated service area and system map received 03/03/05.
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the South Carolina Public Service Commission and that the customer has the right to register the complaint in accordance with R.103-530 and R. 103-730.	X		Recommend posting R.103-530 and R.103-730 information near customer service area in office.
5	Deposits charged within the limits established by R.103-531 and R. 103-731.	NA	NA	LWCU does not require deposits from new/existing customers.
6	Timely and accurate bills being rendered to customers in accordance with R.103-532 and R.103-732.	X		Invoices issued on the 28 th /29 th day of each month. LWCU invoices in arrears.
7	Bill forms in accordance with R.103-532 and R.103-732.		X	Bill form lacks telephone number for LWCU as required by R.103-532.2(k) and R.103-732.2(k). Business hours need to be clearly printed on the invoice.
8	Adjustments of bills handled in accordance with R.103-533 and 103-733.	X		Invoice adjustments are compliant with R.103-533 and 103-733.

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
9	Policy for customer denial or discontinuance of service in accordance with R.103-535 and 103-735.	X		Few delinquencies occur.
10	Notices sent to customers prior to termination in accordance with Rule R.103-535 and 103-735.	X		Proper notice procedure is followed.
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to its customers in accordance with rule R.103-514-C and 103-714-C.	X		
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions or service in accordance with R.103-530 and 103-730.	X		LWCU uses voice mail to direct customer's to contact Mr. Malpeli in case of after-hours emergency. Voice mail message provides after hours phone number. LWCU regular business hours need to be printed on the bill form.
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-514 and 103-714.	X		
14	Utility advised the Commission, in accordance with Rule 103-512 of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, emergencies during non-office hours.	X		Authorized Utility Representative Form completed on 03/03/05.
15	Company verified the maps on file with the Commission include all the service area of the company.	X		Updated system/service area map provided on 03/03/05.
16	Number of customers the company has at present time.	NA	NA	The company had 93 subdivision customers, 169 mobile home park customers for a total of 262 residential customers as of February 28, 2005. In addition, LWCU provides water/sewer service to the Lake Wylie Mobile Home Park office.
17	Company has a current performance bond on file with the Commission. Amount of bond: \$40,000		X	LWCU currently has Personal Financial statement on file with the PSC for Mr. J.C. Malpeli dated 03/31/04. This financial statement documents a net worth of \$658,165.00. The stated bond amount of \$20,000 for water and \$20,000 for sewer is insufficient per R.103-512 and 103-712.



ORS WASTEWATER SYSTEM INSPECTION

Utility Name: Lake Wylie Community Utilities, Inc. Number of Customers: 270

System Type: Collection and Treatment System Date Inspected: Feb. 25, 2005

Inspected By: Willie Morgan/Dawn Hipp - Office of Regulatory Staff

Company Representative: John C. Malpeli

Type of Plant: Collection and Biological Treatment System

Extent of Treatment: Biological Treatment with Surface Water Discharge using NPDES permit (SC0037605)

System Components Inspected	Yes	No
Chlorinator Chlorine Tablets	X	
Other Chemicals in Use Sulfur Dioxide Tablets	X	
Aerators	X	
Plant fenced and Locked	X	
Warning Signs Visible	X	
Holes in Fence		X
Erosion of Dikes		X
Odor		X
Grass Cut	X	
Duck Weed or Algae		X
Grease Build Up		X
Debris inside of Plant		X
Color of Effluent:	Clear	
Lift Stations: Number 1	X	
Failure Warning System ¹	X	
Electric Wiring Acceptable	X	
Overflows		X
Condition of Access Road: Good/Fair/Bad	Good	
New Construction		X

Frequency Checked by Licensed WWTF Operator: Daily

Location of Utility Office: 1295 Stateline Road, Lake Wylie, SC

Location of System: Lake Wylie Mobile Home Park in York County

Subdivision provided water by this Utility: Lake Wylie Mobile Home Park

Comments:

Footnote: 1. A telephone number needs to be placed on a warning sign on the fence surrounding the pump station. The telephone number must be the number to be called in case of an emergency associated with the pump station (i.e., leak, overflow, etc.)



ORS WATER SYSTEM INSPECTION

Utility Name: Lake Wylie Community Utilities, Inc. Number of Customers: 270

System Type: Well and Distribution

Date Inspected: Feb. 25, 2005

Inspected By: Willie Morgan/Dawn Hipp - Office of Regulatory Staff Subdivision Name: Lake Wylie MHP

Company Representative: John C. Malpeli

Type of Plant: Well and Distribution (SCDHEC ID#: 4660081)

Extent of Treatment: No Treatment

System Components Inspected	Specific Type	Total #	PSI	Capacity	Compliance		Comments
					Yes	No	
Well Sites	Bored	2			X		
Pump Houses	Cover/Cover	1/1			X		
Storage Tank(s)							
	Pressurized	1			X		
	Non-Pressurized						
	Overhead						
Chlorinator							
Meters					X		
Fire Hydrants		0					
Electrical Wiring					X		
Exposed Pipe					X		
Air in Lines							Was not evaluated
Sand in Water							Was not evaluated
Clarity of Water							Was not evaluated
Leaks							None observed on system
Odor							None observed on system
Condition of Access Road:					X		
New Construction							N/A

Frequency Checked by Licensed Operator: 5 days per week

Location of Utility Office: 1295 Stateline Road, Lake Wylie, SC

Subdivision provided wastewater service by this Utility: Lake Wylie Mobile Home Park

Comments: Water is withdrawn from the two wells and distributed to the customers of the Lake Wylie Mobile Home Park. The wells feed water to a single above ground steel tank located near the center of the mobile home park.

LAKE WYLIE COMMUNITY UTILITIES, INC.
2004-353-WS
BONDING REQUIREMENT EXHIBIT
FOR THE TEST YEAR ENDING DECEMBER 31, 2003

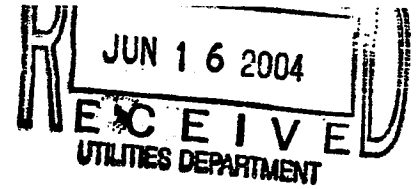
EXHIBIT DMH-2

Lake Wylie Community Utilities, Inc. - Water			
Bond Value Components	Per Books	As Adjusted	LWCU Proposed Increase
O & M Expense	\$37,456.00	\$29,683.00	\$29,683.00
G & A Expense	\$39,510.00	\$36,593.00	\$36,593.00
Taxes	\$50.00	\$1,672.00	\$2,285.00
Income Tax	\$0.00	\$0.00	\$9,436.00
Debt Service/Interest Expense	\$0.00	\$0.00	\$0.00
Bond Value Requirement	\$77,016.00	\$67,948.00	\$77,997.00
Lake Wylie Community Utilities, Inc. - Sewer			
Bond Value Components	Per Books	As Adjusted	LWCU Proposed Increase
O & M Expense	\$22,606.00	\$27,932.00	\$27,932.00
G & A Expense	\$37,320.00	\$37,361.00	\$37,361.00
Taxes	\$50.00	\$1,448.00	\$2,061.00
Income Tax	\$0.00	\$0.00	\$9,592.00
Debt Service/Interest Expense	\$0.00	\$0.00	\$0.00
Bond Value Requirement	\$59,976.00	\$66,741.00	\$76,946.00
Current Bond Structure (1)	Asset Value	Liabilities Reported (2)	Net Worth Reported
Lake Wylie Mobile Home L.P	\$558,445.00	\$0.00	\$558,445.00
Lake Wylie Community Utilities (3)	\$99,720.00	\$0.00	\$99,720.00
Total Surety Pledged to Bond	\$658,165.00	\$0.00	\$658,165.00

(1) As reported in Statement of Financial Condition dated 03/31/04 filed with PSC on 06/16/04.

(2) LCWU did not report any liabilities on the Statement of Financial Condition

(3) LWCU has reported ownership in utility as asset.



JOHN C. MALPELI, III

STATEMENT OF FINANCIAL CONDITION
AS PRESCRIBED BY THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

MARCH 31, 2004

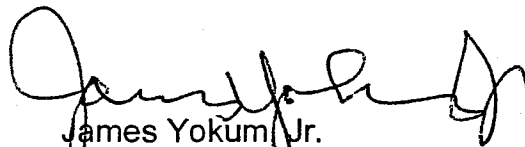
Yokum & Co.
ACCOUNTING AND TAX PROFESSIONALS

John C. Malpeli, III
50 Water Thrush Road
Lake Wylie, South Carolina 29710

We have compiled the accompanying statement of financial condition of John C. Malpeli, III as of March 31, 2004, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

This compilation is limited to presenting in the form prescribed by the Public Service Commission of South Carolina information that is the representation of the individual whose financial statement is presented. We have not audited or reviewed the accompanying statement of financial condition and, accordingly, do not express an opinion or any other form of assurance on it.

This statement of financial condition is presented to meet the "Surety" requirement in accordance with the requirements of the Public Service Commission of South Carolina, which differ from generally accepted accounting principles. Accordingly, this statement of financial condition is not designed for those who are not informed about such differences.



James Yokum, Jr.
Certified Public Accountant

Novi, Michigan
May 25, 2004

James Yokum, Jr. ~ *Certified Public Accountant* • Beth Yarmak ~ *Accountant*

JOHN C. MALPELI, III

STATEMENT OF FINANCIAL CONDITION
AS PRESCRIBED BY THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
March 31, 2004

ASSETS

Other Assets:		
Investments	- Lake Wylie Mobile Home, L.P. (30.657% owner)	\$ 558,445
	- Lake Wylie Community Utility (30.657% owner)	<u>99,720</u>
Total Assets		<u><u>\$ 658,165</u></u>

LIABILITIES AND NET WORTH

Total Liabilities	\$ -
Net Worth	<u>658,165</u>
Total Liabilities and Net Worth	<u><u>\$ 658,165</u></u>

J.C.M. III

LAKE WYLIE COMMUNITY UTILITIES, INC.
2004-353-WS
DEPRECIATION EXHIBIT
FOR TEST YEAR ENDING DECEMBER 31, 2003

EXHIBIT DMH-4
PAGE 1 OF 1

	Date Acquired	Description	Amount \$	Service Life #	Location of Asset
SEWER PLANT					
1	Jan-84	Mains & Collecting System Equipment (FL #354)	84,586	27	Lake Wylie Community Utilities
2	Jul-96	Mains (FL #361)	1,800	40	Lake Wylie Community Utilities
3	Jul-00	Electric Snake (FL #395)	1,030	10	Lake Wylie Community Utilities
WATER PLANT					
4	Jan-84	Mains & Well (FL #307)	43,822	27	Lake Wylie Community Utilities
5	Dec-92	Mains (FL #331)	40,870	38	Lake Wylie Community Utilities
6	Jul-96	Mains (FL #331)	1,800	38	Lake Wylie Community Utilities
AUTO					
7	Jun-94	Dump Truck (FL #341 or 391)	2,000	6	Lake Wylie Community Utilities
8	Jun-01	Ford Pickup (traded in on July 12, 2003) (FL #341 or 391)	30,804	6	Lake Wylie Community Utilities
9	Jul-03	2003 Dodge Ram (traded in on July 2004) (FL #341 or 391)	28,221	6	Lake Wylie Community Utilities

LAKE WYLIE COMMUNITY UTILITIES, INC.
2004-353-WS
SERVICE REVENUE EXHIBIT
TEST YEAR ENDING 12/31/03

EXHIBIT DMH-5
PAGE 1 OF 1

Water Operations Analysis

Total Invoices Issued during test year (2)	Base Charge/Mo. (3)	Calculated Service Revenues (4)	Reported Service Revenues (5)	Difference (6)	Uncollectible %
3412	\$10.00	\$34,120.00	\$34,120.00	\$0.00	0.00%

Sewer Operations Analysis

Total Invoices Issued during test year (2)	Base Charge/Mo. (3)	Calculated Service Revenues (4)	Reported Service Revenues (5)	Difference (6)	Uncollectible %
3412	\$10.00	\$34,120.00	\$34,120.00	\$0.00	0.00%

Combined Operations Analysis

Total Invoices Issued during test year (2)	Base Charge/Mo. (3)	Calculated Service Revenues (4)	Reported Service Revenues (5)	Difference (6)	Uncollectible %
3412	\$20.00	\$68,240.00	\$68,240.00	\$0.00	0.00%

Calculation Methodology:

- (1) The purpose of a bill frequency analysis is to provide a comparison between service revenue reported by Lake Wylie Community Utilities, Inc. (LWCU) and service revenue billed by LWCU.
- (2) Total number of invoices issued during the test year as computed by ORS.
- (3) Average monthly base charge as reflected on LWCU approved schedule of rates and charges.
- (4) ORS Calculated revenues calculated by: base charge/month X total invoices issued during test year = Calculated Revenues.
- (5) LWCU reported service revenues as documented on General Ledger for Test Year.
- (6) Difference between Calculated Revenues and Reported Revenues.
- (7) Customer Late Fees, deposits or miscellaneous charges are not included in any computation.
- (8) **Note: ORS does not propose an adjustment to Lake Wylie Community Utilities, Inc. reported revenue for the Test Year ending 12/31/03.**

LAKE WYLIE UTILITIES, INC.
2004-353-WS
SERVICE REVENUE IMPACT
FOR THE TEST YEAR ENDING DECEMBER 31, 2004

EXHIBIT DMH-6

Impact on Total Revenues: Operating Margin 10%

Customer Classification	Customers Invoiced during Test Year (1)	Test Year Rate	Alternate Rate	Proposed Rate Increase	Test Year Calculated Revenues (2)	Alternate Calculated Revenues	Proposed Increase	Percent Increase/Decrease
Residential - Water	3412	\$10.00	\$24.00	\$14.00	\$34,120.00	\$81,888.00	\$47,768.00	140.00%
Residential - Sewer	3412	\$10.00	\$24.00	\$14.00	\$34,120.00	\$81,888.00	\$47,768.00	140.00%
Residential - Combined	3412	\$20.00	\$48.00	\$28.00	\$68,240.00	\$163,776.00	\$95,536.00	140.00%

Impact on Total Revenues: Operating Margin 15%

Customer Classification	Customers Invoiced during Test Year (1)	Test Year Rate	Alternate Rate	Proposed Rate Increase	Test Year Calculated Revenues (2)	Alternate Calculated Revenues	Proposed Increase	Percent Increase/Decrease
Residential - Water	3412	\$10.00	\$26.00	\$16.00	\$34,120.00	\$88,712.00	\$54,592.00	160.00%
Residential - Sewer	3412	\$10.00	\$26.00	\$16.00	\$34,120.00	\$88,712.00	\$54,592.00	160.00%
Residential - Combined	3412	\$20.00	\$52.00	\$32.00	\$68,240.00	\$177,424.00	\$109,184.00	160.00%

Impact on Total Revenues: LWCU Proposed Rates - Operating Margin 27.99%

Customer Classification	Customers Invoiced during Test Year (1)	Test Year Rate	LWCU Proposed Rate (3)	Proposed Rate Increase	Test Year Calculated Revenues (2)	LWCU Proposed Calculated Revenues (4)	Proposed Increase	Percent Increase/Decrease
Residential - Water	3412	\$10.00	\$33	\$23.24	\$34,120.00	\$113,400	\$79,280	232.36%
Residential - Sewer	3412	\$10.00	\$33	\$23.24	\$34,120.00	\$113,400	\$79,280	232.36%
Residential - Combined	3,412	\$20	\$66	\$46	\$68,240	\$226,800	\$158,560	232.36%

Calculation Methodology:

- (1) Total number of LWCU customer's invoiced during test year as computed by ORS.
- (2) Calculated Revenue equation: Rate multiplied by the total invoices during test year equals Calculated Revenues
- (3) LWCU Proposed Rates reflected for revenue impact purposes calculated by ORS based on LWCU's proposed service revenue requirement of \$226,800.00 (Application Exhibit B-3)
- (4) Customer Late Fees, Tap Fees, Reconnection Fees, Set-up Fees, Deposits and Interest on Deposits are not included in any of the above computations.

LAKE WYLIE COMMUNITY UTILITIES, INC.
2004-353-WS
EFFECT OF PROPOSED RATES ON CUSTOMER BILL
FOR TEST YEAR ENDING DECEMBER 31, 2003

EXHIBIT DMH-7

Residential Rate Structure Comparison: Operating Margin 10%

Customer Classification	Service Type	Billing Unit of Measure	Current Rate	ORS Proposed Rate	Amount of Increase	Percent Increase
Residential	Water	per month	\$10.00	\$24.00	\$14.00	140.00%
	Sewer	per month	\$10.00	\$24.00	\$14.00	140.00%

Residential Rate Structure Comparison: Operating Margin 15%

Customer Classification	Service Type	Billing Unit of Measure	Current Rate	ORS Proposed Rate	Amount of Increase	Percent Increase
Residential	Water	per month	\$10.00	\$26.00	\$16.00	160.00%
	Sewer	per month	\$10.00	\$26.00	\$16.00	160.00%

Residential Rate Structure Comparison: LWCU Proposed - Operating Margin 27.99%

Customer Classification	Service Type	Billing Unit of Measure	Current Rate	LWCU Proposed Rate	Amount of Increase	Percent Increase
Residential	Water	per month	\$10.00	\$35.00	\$25.00	250.00%
	Sewer	per month	\$10.00	\$35.00	\$25.00	250.00%

Proposed Other Rate Structure Comparison

Customer Classification	Service Type	Billing Unit of Measure	Current Rate	LWCU Proposed Rate	Amount of Increase	Percent Increase
Residential	Tap Fee	each	\$250.00	\$250.00	\$0.00	0.00%
Residential	Reconnection Fee	each	\$10.00	\$150.00	\$140.00	1400.00%
Residential	Administration Fee	each	\$0.00	\$45.00	\$45.00	100.00%
Residential	DHEC Fee for Water	per month	\$1.25	\$1.25	\$0.00	0.00%

LAKE WYLIE COMMUNITY UTILITIES, INC.
2004-353-WS
ALTERNATE REVENUE REQUIREMENTS
FOR TEST YEAR ENDING DECEMBER 31, 2003

EXHIBIT DMH - 8

Revenue Alternates	Operations	Revenue Requirement	Average # of Customers/Month	Customer Monthly Water Rate	Customer Monthly Sewer Rate	Total Monthly Rate for Water and Sewer	Comments
Operating Margin @ 5.00%	Water-Sewer	\$153,205.00	285	\$22	\$22	\$45	
Operating Margin @ 10.00%	Water-Sewer	\$164,125.00	285	\$24	\$24	\$48	
Operating Margin @ 15.00%	Water-Sewer	\$176,740.00	285	\$26	\$26	\$52	
Operating Margin @ 20.00%	Water-Sewer	\$191,440.00	285	\$28	\$28	\$56	
Operating Margin @ 25.00%	Water-Sewer	\$211,290.00	285	\$31	\$31	\$62	
Operating Margin @ 27.99%	Water-Sewer	\$226,800.00	285	\$33	\$33	\$66	LWCU Proposed Revenue Requirement

Calculation Methodology:

(1) Revenue Requirement calculated by Audit Department.